FIRST BANCORP /NC/
Form 10-Q
November 09, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2011

Commission File Number 0-15572

FIRST BANCORP
(Exact Name of Registrant as Specified in its Charter)

North Carolina (State or Other Jurisdiction of Incorporation or Organization)	56-1421916 (I.R.S. Employer Identification Number)
341 North Main Street, Troy, North Carolina (Address of Principal Executive Offices)	27371-0508 (Zip Code)
(Registrant's telephone number, including area code)	(910) 576-6171

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ý YES o NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ý YES o NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one)

o Large Accelerated Filer	ý Accelerated Filer	o Non-Accelerated Filer (Do not check if a smaller reporting company)	o Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).o YES ý NO

The number of shares of the registrant's Common Stock outstanding on October 31, 2011 was 16,897,382.

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FIRST BANCORP AND SUBSIDIARIES

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FORWARD-LOOKING STATEMENTS

Part I of this report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act, which statements are inherently subject to risks and uncertainties. Forward-looking statements are statements that include projections, predictions, expectations or beliefs about future events or results or otherwise are not statements of historical fact. Such statements are often characterized by the use of qualifying words (and their derivatives) such as “expect,” “believe,” “estimate,” “plan,” “project,” other statements concerning our opinions or judgment about future events. Factors that could influence the accuracy of such forward-looking statements include, but are not limited to, the financial success or changing strategies of our customers, our level of success in integrating acquisitions, actions of government regulators, the level of market interest rates, and general economic conditions. For additional information that could affect the matters discussed in this paragraph, see the “Risk Factors” section of our 2010 Annual Report on Form 10-K.

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Part I. Financial Information
Item 1 - Financial Statements

First Bancorp and Subsidiaries
Consolidated Balance Sheets

($ in thousands-unaudited)	September 30, 2011	December 31, 2010 (audited)	September 30, 2010
ASSETS			
Cash and due from banks, noninterest-bearing	$ 75,772	56,821	51,812
Due from banks, interest-bearing	167,053	154,320	246,771
Federal funds sold	659	861	21,092
Total cash and cash equivalents	243,484	212,002	319,675
Securities available for sale	159,870	181,182	143,047
Securities held to maturity (fair values of $61,512, $53,312, and $54,300)	57,533	54,018	51,661
Presold mortgages in process of settlement	3,823	3,962	3,226
Loans – non-covered	2,058,724	2,083,004	2,096,439
Loans – covered by FDIC loss share agreement	373,824	371,128	413,735
Total loans	2,432,548	2,454,132	2,510,174
Allowance for loan losses – non-covered	(34,397)	(38,275)	(44,999)
Allowance for loan losses – covered	(3,257)	(11,155)	–
Total allowance for loan losses	(37,654)	(49,430)	(44,999)
Net loans	2,394,894	2,404,702	2,465,175
Premises and equipment	69,862	67,741	54,039
Accrued interest receivable	11,568	13,579	13,135
FDIC indemnification asset	120,950	123,719	93,125
Goodwill	65,835	65,835	65,835
Other intangible assets	4,123	4,523	4,742
Other real estate owned – non-covered	32,673	21,081	17,475
Other real estate owned – covered	104,785	94,891	101,389
Other	33,298	31,697	27,813
Total assets	$ 3,302,698	3,278,932	3,360,337
LIABILITIES			
Deposits: Demand - noninterest-bearing	$ 334,109	292,759	290,388
NOW accounts	376,999	292,623	370,654
Money market accounts	506,013	500,360	492,983
Savings accounts	146,977	153,325	154,955
Time deposits of $100,000 or more	751,994	762,990	759,037
Other time deposits	613,312	650,456	683,465
Total deposits	2,729,404	2,652,513	2,751,482
Securities sold under agreements to repurchase	60,498	54,460	68,157

Borrowings	135,759	196,870	158,907
Accrued interest payable	1,938	2,082	2,421
Other liabilities	23,286	28,404	28,415
Total liabilities	2,950,885	2,934,329	3,009,382
Commitments and contingencies	–	–	–
SHAREHOLDERS' EQUITY			
Preferred stock, no par value per share. Authorized: 5,000,000 shares			
Issued and outstanding: 63,500, 65,000, and 65,000 shares	63,500	65,000	65,000
Discount on preferred stock	–	(2,932)	(3,146)
Common stock, no par value per share. Authorized: 40,000,000 shares			
Issued and outstanding: 16,884,617, 16,801,426, and 16,785,750 shares	100,926	99,615	99,303
Common stock warrants	4,592	4,592	4,592
Retained earnings	186,654	183,413	188,028
Accumulated other comprehensive income (loss)	(3,859)	(5,085)	(2,822)
Total shareholders' equity	351,813	344,603	350,955
Total liabilities and shareholders' equity	$ 3,302,698	3,278,932	3,360,337

See notes to consolidated financial statements.

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First Bancorp and Subsidiaries
Consolidated Statements of Income

($ in thousands, except share data-unaudited)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
INTEREST INCOME				
Interest and fees on loans	$ 37,200	36,897	112,471	112,724
Interest on investment securities:				
Taxable interest income	1,421	1,364	4,316	4,473
Tax-exempt interest income	500	414	1,499	1,177
Other, principally overnight investments	107	135	300	463
Total interest income	39,228	38,810	118,586	118,837
INTEREST EXPENSE				
Savings, NOW and money market	1,020	1,541	3,353	5,069
Time deposits of $100,000 or more	2,479	2,991	7,744	9,645
Other time deposits	1,651	2,713	5,587	8,762
Securities sold under agreements to repurchase	46	60	144	244
Borrowings	543	434	1,475	1,333
Total interest expense	5,739	7,739	18,303	25,053
Net interest income	33,489	31,071	100,283	93,784
Provision for loan losses – non-covered	6,441	8,391	21,618	24,017
Provision for loan losses – covered	2,705		9,805	
Total provision for loan losses	9,146	8,391	31,423	24,017
Net interest income after provision for loan losses	24,343	22,680	68,860	69,767
NONINTEREST INCOME				
Service charges on deposit accounts	3,429	3,350	10,038	10,408
Other service charges, commissions and fees	1,657	1,325	4,972	4,080
Fees from presold mortgages	468	404	1,109	1,216
Commissions from sales of insurance and financial products	383	325	1,147	1,087
Gain from acquisition			10,196	
Foreclosed property losses and write-downs – non-covered	(919)	(57)	(2,543)	(108)
Foreclosed property losses and write-downs – covered	(5,176)	(6,335)	(12,693)	(11,830)
FDIC indemnification asset income, net	3,589	5,068	10,455	9,464
Securities gains		1	74	25
Other gains (losses)	55	(124)	38	(154)
Total noninterest income	3,486	3,957	22,793	14,188
NONINTEREST EXPENSES				
Salaries	9,980	8,637	29,385	25,988
Employee benefits	3,086	2,672	9,242	7,745
Total personnel expense	13,066	11,309	38,627	33,733

Net occupancy expense	1,674	1,768	4,944	5,408
Equipment related expenses	1,089	1,044	3,261	3,246
Intangibles amortization	226	219	676	654
Merger expenses	12		606	
Other operating expenses	7,891	6,371	23,800	21,907
Total noninterest expenses	23,958	20,711	71,914	64,948
Income before income taxes	3,871	5,926	19,739	19,007
Income taxes	1,314	2,078	7,081	6,780
Net income	2,557	3,848	12,658	12,227
Preferred stock dividends	(815)	(812)	(2,440)	(2,437)
Accretion of preferred stock discount	(2,474)	(215)	(2,932)	(643)
Net income (loss) available to common shareholders	$ (732)	2,821	7,286	9,147
Earnings (loss) per common share:				
Basic	$ (0.04)	0.17	0.43	0.55
Diluted	(0.04)	0.17	0.43	0.54
Dividends declared per common share	$ 0.08	0.08	0.24	0.24
Weighted average common shares outstanding:				
Basic	16,875,918	16,779,554	16,843,716	16,754,678
Diluted	16,903,031	16,807,135	16,871,010	16,784,032

See notes to consolidated financial statements.

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First Bancorp and Subsidiaries
Consolidated Statements of Comprehensive Income

($ in thousands-unaudited)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Net income	$2,557	3,848	12,658	12,227
Other comprehensive income (loss):				
Unrealized gains on securities available for sale:				
Unrealized holding gains arising during the period, pretax	259	150	1,646	2,235
Tax benefit	(101)	(58)	(642)	(871)
Reclassification to realized gains	–	(1)	(74)	(25)
Tax expense	–	1	29	10
Postretirement Plans:				
Amortization of unrecognized net actuarial loss	140	164	420	398
Tax expense	(56)	(65)	(168)	(157)
Amortization of prior service cost and transition obligation	9	8	27	26
Tax expense	(4)	(3)	(12)	(11)
Other comprehensive income	247	196	1,226	1,605
Comprehensive income	$2,804	4,044	13,884	13,832

See notes to consolidated financial statements.

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First Bancorp and Subsidiaries
Consolidated Statements of Shareholders' Equity

(In thousands, except per share - unaudited)	Preferred Stock	Preferred Stock Discount	Common Stock Shares	Common Stock Amount	Common Stock Warrants	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Share-holders' Equity
Balances, January 1, 2010	$ 65,000	(3,789)	16,722	$ 98,099	4,592	182,908	(4,427)	342,383
Net income						12,227		12,227
Common stock issued under stock option plans			17	171				171
Common stock issued into dividend reinvestment plan			31	456				456
Cash dividends declared ($0.24 per common share)						(4,026)		(4,026)
Preferred dividends						(2,438)		(2,438)
Accretion of preferred stock discount		643				(643)		–
Tax benefit realized from exercise of nonqualified stock options				36				36
Stock-based compensation			16	541				541
Other comprehensive income							1,605	1,605
Balances, September 30, 2010	$ 65,000	(3,146)	16,786	$ 99,303	4,592	188,028	(2,822)	350,955
Balances, January 1, 2011	$ 65,000	(2,932)	16,801	$ 99,615	4,592	183,413	(5,085)	344,603
Net income						12,658		12,658
	(65,000)							(65,000)

Preferred stock redeemed								
Preferred stock issued	63,500							63,500
Common stock issued under stock option plans			2	30				30
Common stock issued into dividend reinvestment plan			53	638				638
Cash dividends declared ($0.24 per common share)						(4,045)		(4,045)
Preferred dividends						(2,440)		(2,440)
Accretion of preferred stock discount		2,932				(2,932)		–
Stock-based compensation			29	643				643
Other comprehensive income							1,226	1,226
Balances, September 30, 2011	$ 63,500	–	16,885	$ 100,926	4,592	186,654	(3,859)	351,813

See notes to consolidated financial statements.

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First Bancorp and Subsidiaries
Consolidated Statements of Cash Flows

	Nine Months Ended September 30,	
($ in thousands-unaudited)	2011	2010
Cash Flows From Operating Activities		
Net income	$ 12,658	12,227
Reconciliation of net income to net cash provided by operating activities:		
Provision for loan losses	31,423	24,017
Net security premium amortization	1,013	1,096
Purchase accounting accretion and amortization, net	(9,921)	(6,742)
Gain from acquisition	(10,196)	–
Foreclosed property losses and write-downs	15,236	11,938
Gain on securities available for sale	(74)	(25)
Other (gains) losses	(38)	154
Increase in net deferred loan costs	(322)	(488)
Depreciation of premises and equipment	3,302	2,963
Stock-based compensation expense	643	541
Amortization of intangible assets	676	654
Origination of presold mortgages in process of settlement	(53,094)	(60,158)
Proceeds from sales of presold mortgages in process of settlement	53,233	60,899
Decrease in accrued interest receivable	2,011	1,648
Increase in other assets	(12,809)	(10,694)
Decrease in accrued interest payable	(144)	(633)
Decrease in other liabilities	(6,087)	(1,913)
Net cash provided by operating activities	27,510	35,484
Cash Flows From Investing Activities		
Purchases of securities available for sale	(43,146)	(42,284)
Purchases of securities held to maturity	(3,816)	(19,710)
Proceeds from maturities/issuer calls of securities available for sale	66,281	80,225
Proceeds from maturities/issuer calls of securities held to maturity	1,053	2,367
Proceeds from sales of securities available for sale	2,518	–
Net decrease in loans	30,476	51,136
Proceeds from FDIC loss share agreements	59,411	46,433
Proceeds from sales of foreclosed real estate	24,650	16,840
Purchases of premises and equipment	(5,407)	(2,811)
Net cash received (paid) in acquisition	54,037	(170)
Net cash provided by investing activities	186,057	132,026
Cash Flows From Financing Activities		
Net decrease in deposits and repurchase agreements	(109,551)	(175,316)
Repayments of borrowings, net	(65,081)	(17,600)
Cash dividends paid – common stock	(4,039)	(4,016)
Cash dividends paid – preferred stock	(2,582)	(2,438)
Proceeds from issuance of common stock	668	627
Proceeds from issuance of preferred stock	63,500	–
Redemption of preferred stock	(65,000)	–

Tax benefit from exercise of nonqualified stock options	–	36
Net cash used by financing activities	(182,085)	(198,707)
Increase (decrease) in cash and cash equivalents	31,482	(31,197)
Cash and cash equivalents, beginning of period	212,002	350,872
Cash and cash equivalents, end of period	$243,484	319,675
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	$18,447	25,686
Income taxes	13,943	16,238
Non-cash transactions:		
Unrealized gain on securities available for sale, net of taxes	959	1,349
Foreclosed loans transferred to other real estate	60,030	94,949

See notes to consolidated financial statements.

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First Bancorp and Subsidiaries
Notes to Consolidated Financial Statements

(unaudited) For the Periods Ended September 30, 2011 and 2010

Note 1 - Basis of Presentation

In the opinion of the Company, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly the consolidated financial position of the Company as of September 30, 2011 and 2010 and the consolidated results of operations and consolidated cash flows for the periods ended September 30, 2011 and 2010. All such adjustments were of a normal, recurring nature. Reference is made to the 2010 Annual Report on Form 10-K filed with the SEC for a discussion of accounting policies and other relevant information with respect to the financial statements. The results of operations for the periods ended September 30, 2011 and 2010 are not necessarily indicative of the results to be expected for the full year. The Company has evaluated all subsequent events through the date the financial statements were issued.

Note 2 – Accounting Policies

Note 1 to the 2010 Annual Report on Form 10-K filed with the SEC contains a description of the accounting policies followed by the Company and discussion of recent accounting pronouncements. The following paragraphs update that information as necessary.

In July 2010, the Financial Accounting Standards Board (FASB) issued guidance that requires an entity to provide more information about the credit quality of its financing receivables, such as aging information, credit quality indicators and troubled debt restructurings, in the disclosures to its financial statements. Both new and existing disclosures must be disaggregated by portfolio segment or class. The disaggregation of information is based on how the entity develops its allowance for credit losses and how it manages its credit exposure. Except for disclosures related to troubled debt restructurings (discussed in next paragraph), the required disclosures became effective for periods ending on or after December 15, 2010. The Company is required to include these disclosures in its interim and annual financial statements. See Note 8 for required disclosures.

In April 2011, the FASB issued guidance to assist creditors with their determination of when a restructuring is a troubled debt restructuring. The determination is based on whether the restructuring constitutes a concession and whether the debtor is experiencing financial difficulties, as both events must be present. This guidance and the new disclosures related to troubled debt restructurings became effective for reporting periods beginning after June 15, 2011. See Note 8 for required disclosures.

In December 2010, the FASB issued amended guidance to modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. Any resulting goodwill impairment should be recorded as a cumulative-effect adjustment to beginning retained earnings upon adoption. Impairments occurring subsequent to adoption should be included in earnings. The amendment was effective for the Company beginning January 1, 2011 and did not impact the Company.

In September 2011, the FASB issued additional amended guidance related to goodwill impairment testing. Guidance now permits an entity to consider qualitative factors to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. This amendment will be effective for the Company on January 1, 2012.

Also in December 2010, the FASB issued amended guidance specifying that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendment also requires that the supplemental pro forma disclosures include a description of the nature and amount of any material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. This amendment is effective for the Company for business combinations for which the acquisition date is on or after January 1, 2011.

In June 2011, the FASB amended the comprehensive income guidance by eliminating the option to present other comprehensive income as a part of the statement of changes in stockholders' equity. The amendment requires consecutive presentation of the statement of net income and other comprehensive income and requires an entity to present reclassification adjustments from other comprehensive income to net income on the face of the financial statements. The amendments will be applicable to the Company on January 1, 2012 and will be applied retrospectively. The Company has consistently followed the new requirements in prior filings.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

Note 3 – Reclassifications

Certain amounts reported in the period ended September 30, 2010 have been reclassified to conform to the presentation for September 30, 2011. These reclassifications had no effect on net income or shareholders' equity for the periods presented, nor did they materially impact trends in financial information.

Note 4 – Acquisition of Bank of Asheville

On January 21, 2011, the Company announced that First Bank, its banking subsidiary, had entered into a loss share purchase and assumption agreement with the Federal Deposit Insurance Corporation (FDIC), as receiver for The Bank of Asheville, Asheville, North Carolina. Earlier that day, the North Carolina Commissioner of Banks issued an order for the closure of The Bank of Asheville and appointed the FDIC as receiver. According to the terms of the agreement, First Bank acquired substantially all of the assets and liabilities of The Bank of Asheville. All deposits were assumed by First Bank with no losses to any depositor.

The Bank of Asheville operated through five branches in Asheville, North Carolina with total assets of approximately $198 million and 50 employees.

Substantially all of the loans and foreclosed real estate purchased are covered by loss share agreements between the FDIC and First Bank, which afford First Bank significant loss protection. Under the loss share agreements, the FDIC will cover 80% of covered loan and foreclosed real estate losses. The term for loss sharing on residential real estate loans is ten years, while the term for loss sharing on non-residential real estate loans is five years in respect to losses and eight years in respect to loss recoveries. The reimbursable losses from the FDIC are based on the book value of the relevant loan as determined by the FDIC at the date of the transaction. New loans made after that date are not covered by the loss share agreements.

First Bank received a $23.9 million discount on the assets acquired and paid no deposit premium. The acquisition was accounted for under the purchase method of accounting in accordance with relevant accounting guidance. The statement of net assets acquired as of January 21, 2011 and the resulting gain are presented in the following table. The purchased assets and assumed liabilities were recorded at their respective acquisition date fair values, and identifiable intangible assets were recorded at fair value. Fair values are preliminary and subject to refinement for up to one year after the closing date of the acquisition as information relative to closing date fair values becomes available. The Company recorded an estimated receivable from the FDIC in the amount of $42.2 million, which represents the fair value of the FDIC's portion of the losses that are expected to be incurred and reimbursed to the Company.

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An acquisition gain totaling $10.2 million resulted from the acquisition and is included as a component of noninterest income on the statement of income. The amount of the gain is equal to the amount by which the fair value of assets purchased exceeded the fair value of liabilities assumed.

The statement of net assets acquired as of January 21, 2011 and the resulting gain that was recorded are presented in the following table.

($ in thousands)	As Recorded by The Bank of Asheville	Fair Value Adjustments		As Recorded by the Company
Assets				
Cash and cash equivalents	$ 27,297	–		27,297
Securities	4,461	–		4,461
Loans	153,994	(51,726)	(a)	102,268
Core deposit intangible	–	277	(b)	277
FDIC indemnification asset	–	42,218	(c)	42,218
Foreclosed properties	3,501	(2,159)	(d)	1,342
Other assets	1,146	(370)	(e)	776
Total	190,399	(11,760)		178,639
Liabilities				
Deposits	192,284	460	(f)	192,744
Borrowings	4,004	77	(g)	4,081
Other	111	1,447	(h)	1,558
Total	196,399	1,984		198,383
Excess of liabilities received over assets	(6,000)	(13,744)		(19,744)
Less: Asset discount	(23,940)			
Cash received/receivable from FDIC at closing	29,940			29,940
Total gain recorded				$ 10,196

Explanation of Fair Value Adjustments

(a) This estimated adjustment is necessary as of the acquisition date to write down The Bank of Asheville's book value of loans to the estimated fair value as a result of future expected loan losses.

(b) This fair value adjustment represents the value of the core deposit base assumed in the acquisition based on a study performed by an independent consulting firm. This amount was recorded by the Company as an identifiable intangible asset and will be amortized as an expense on a straight-line basis over the average life of the core deposit base, which is estimated to be seven years.

(c) This adjustment is the estimated fair value of the amount that the Company expects to receive from the FDIC under its loss share agreements as a result of future loan losses.

(d) This is the estimated adjustment necessary to write down The Bank of Asheville's book value of foreclosed real estate properties to their estimated fair value as of the acquisition date.

(e) This is an immaterial adjustment made to reflect fair value.

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(f) This fair value adjustment was recorded because the weighted average interest rate of The Bank of Asheville's time deposits exceeded the cost of similar wholesale funding at the time of the acquisition. This amount will be amortized to reduce interest expense on a declining basis over the life of the portfolio of approximately 48 months.

(g) This fair value adjustment was recorded because the interest rates of The Bank of Asheville's fixed rate borrowings exceeded current interest rates on similar borrowings. This amount was realized shortly after the acquisition by prepaying the borrowings at a premium and thus there will be no future amortization related to this adjustment.

(h) This adjustment relates primarily to the estimate of what the Company will owe to the FDIC at the conclusion of the loss share agreements based on a pre-established formula set forth in those agreements that is based on total expected losses in relation to the amount of the discount bid.

The operating results of the Company for the period ended September 30, 2011 include the operating results of the acquired assets and assumed liabilities for the period subsequent to the acquisition date of January 21, 2011 and were not material to the nine month period ended September 30, 2011. Due primarily to the significant amount of fair value adjustments and the FDIC loss share agreements now in place, historical results of The Bank of Asheville are not believed to be relevant to the Company's results, and thus no pro forma information is presented.

Note 5 – Equity-Based Compensation Plans

At September 30, 2011, the Company had the following equity-based compensation plans: the First Bancorp 2007 Equity Plan, the First Bancorp 2004 Stock Option Plan, the First Bancorp 1994 Stock Option Plan, and one plan that was assumed from an acquired entity. The Company's shareholders approved all equity-based compensation plans, except for those assumed from acquired companies. The First Bancorp 2007 Equity Plan became effective upon the approval of shareholders on May 2, 2007. As of September 30, 2011, the First Bancorp 2007 Equity Plan was the only plan that had shares available for future grants.

The First Bancorp 2007 Equity Plan and its predecessor plans, the First Bancorp 2004 Stock Option Plan and the First Bancorp 1994 Stock Option Plan ("Predecessor Plans"), are intended to serve as a means to attract, retain and motivate key employees and directors and to associate the interests of the plans' participants with those of the Company and its shareholders. The Predecessor Plans only provided for the ability to grant stock options, whereas the First Bancorp 2007 Equity Plan, in addition to providing for grants of stock options, also allows for grants of other types of equity-based compensation, including stock appreciation rights, restricted stock, restricted performance stock, unrestricted stock, and performance units. Since the First Bancorp 2007 Equity Plan became effective on May 2, 2007, the Company has granted the following stock-based compensation: 1) the grant of 2,250 stock options to each of the Company's non-employee directors on June 1, 2007, 2008, and 2009, 2) the grant of 5,000 incentive stock options to an executive officer on April 1, 2008 in connection with a corporate acquisition, 3) the grant of 262,599 stock options and 81,337 performance units to 19 senior officers on June 17, 2008 (each performance unit represents the right to acquire one share of the Company's common stock upon satisfaction of the vesting conditions), 4) the grant of 29,267 long-term restricted shares of common stock to certain senior executive officers on December 11, 2009, 5) the grant of 1,039 shares of common stock to each of the Company's non-employee directors on June 1, 2010, 6) the grant of 7,259 long-term restricted shares of common stock to certain senior executive officers on February 24, 2011, and 7) the grant of 1,414 shares of common stock to each of the Company's non-employee directors on June 1, 2011.

Prior to the June 17, 2008 grant, stock option grants to employees generally had five-year vesting schedules (20% vesting each year) and had been irregular, usually falling into three categories - 1) to attract and retain new employees, 2) to recognize changes in responsibilities of existing employees, and 3) to periodically reward exemplary performance. Compensation expense associated with these types of grants is recorded pro-ratably over the vesting period. As it relates to directors, until 2010 the Company had historically granted 2,250 vested stock options to each of the Company's non-employee directors in June of each year. In June 2011 and 2010, the Company granted 1,414 common shares and 1,039 common shares, respectively, to each non-employee director, which had approximately the same value as 2,250 stock options. Compensation expense associated with these director grants is recognized on the date of grant since there are no vesting conditions.

The June 17, 2008 grant of a combination of performance units and stock options have both performance conditions (earnings per share targets) and service conditions that must be met in order to vest. The 262,599 stock options and 81,337 performance units represent the maximum number of options and performance units that could have vested if the Company were to achieve specified maximum goals for earnings per share during the three annual performance periods ending on December 31, 2008, 2009, and 2010. Up to one-third of the total number of options and performance units granted are subject to vesting annually as of December 31 of each year beginning in 2010, if (1) the Company achieves specific earnings per share (EPS) goals during the corresponding performance period and (2) the executive or key employee continues employment for a period of two years beyond the corresponding performance period. Compensation expense for this grant is recorded over the various service periods based on the estimated number of options and performance units that are probable to vest. If the awards do not vest, no compensation cost is recognized and any previously recognized compensation cost will be reversed. The Company did not achieve the minimum earnings per share performance goal for 2008 or 2010, and thus two-thirds of the above grant has been permanently forfeited. As a result of the significant acquisition gain realized in June 2009 related to a failed bank acquisition, the Company achieved the EPS goal for 2009 and the related awards will vest on December 31, 2011 for each grantee that remains employed as of that date. The Company recorded compensation expense of $299,000 in each of 2009 and 2010 related to this grant and its expected vesting. Assuming no forfeitures, the Company will record compensation expense of approximately $75,000 in each quarter of 2011 related to this grant.

The December 11, 2009 and February 24, 2011 grants of long-term restricted shares of common stock to senior executives vest in accordance with the minimum rules for long-term equity grants for companies participating in the U.S. Treasury's Troubled Asset Relief Program (TARP). These rules require that the vesting of the stock be tied to repayment of the financial assistance, with a two year minimum vesting period. The Company redeemed 100% of the TARP preferred stock on September 1, 2011. Therefore, the Company re-evaluated the amortization schedule for both grants. The total compensation expense associated with the December 11, 2009 grant was $398,000 and was being initially amortized over a four-year period at approximately $24,500 per quarter. Due to the TARP repayment, the 2009 grant will now fully vest on December 11, 2011. Accordingly, the Company accelerated the expense amortization by recording $74,500 in expense in the third quarter of 2011 and expects to record the remaining expense of $174,000 in the fourth quarter of 2011. The total compensation expense associated with the February 24, 2011 grant was $105,500 and was being initially amortized over a three-year period at approximately $8,800 per quarter. Due to the TARP repayment, the 2011 grant will fully vest on February 24, 2013. Accordingly, the Company accelerated the expense amortization by recording $10,400 in expense in the third quarter of 2011. Thereafter the Company expects to expense $13,700 in each quarter until 2013. See Note 15 for further information related to the Company's participation in the TARP.

Under the terms of the Predecessor Plans and the First Bancorp 2007 Equity Plan, options can have a term of no longer than ten years, and all options granted thus far under these plans have had a term of ten years. The Company's options provide for immediate vesting if there is a change in control (as defined in the plans).

At September 30, 2011, there were 635,309 options outstanding related to the three First Bancorp plans, with exercise prices ranging from $14.35 to $22.12. At September 30, 2011, there were 927,478 shares remaining available for grant under the First Bancorp 2007 Equity Plan. The Company also has a stock option plan as a result of a corporate acquisition. At September 30, 2011, there were 4,788 stock options outstanding in connection with the acquired plan, with option prices ranging from $10.66 to $15.22.

The Company issues new shares of common stock when options are exercised.

The Company measures the fair value of each option award on the date of grant using the Black-Scholes option-pricing model. The Company determines the assumptions used in the Black-Scholes option pricing model as follows: the risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of the grant; the dividend yield is based on the Company's dividend yield at the time of the grant (subject to adjustment if the dividend yield on the grant date is not expected to approximate the dividend yield over the expected life of the option); the volatility factor is based on the historical volatility of the Company's stock (subject to adjustment if future volatility is reasonably expected to differ from the past); and the weighted-average expected life is based on the historical behavior of employees related to exercises, forfeitures and cancellations.

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The Company’s equity grants for the nine months ended September 30, 2011 were the issuance of 1) 7,259 shares of long-term restricted stock to certain senior executives on February 24, 2011, at a fair market value of $14.54 per share, which was the closing price of the Company’s common stock on that date, and 2) 21,210 shares of common stock to non-employee directors on June 1, 2011 (1,414 shares per director), at a fair market value of $11.39 per share, which was the closing price of the Company’s common stock on that date.

The Company’s only equity grants for the nine months ended September 30, 2010 were the issuance of 15,585 shares of common stock to non-employee directors on June 1, 2010 (1,039 shares per director). The fair market value of the Company’s common stock on the grant date was $15.51 per share, which was the closing price of the Company’s common stock on that date.

The Company recorded total stock-based compensation expense of $643,000 and $541,000 for the nine-month periods ended September 30, 2011 and 2010, respectively. Stock-based compensation expense is recorded as “salaries expense” in the Consolidated Statements of Income and as an adjustment to cash flows from operating activities on the Company’s Consolidated Statement of Cash Flows. The Company recognized no income tax benefits in the income statement related to stock-based compensation for the nine-month period ended September 30, 2011 and approximately $36,000 in income tax benefits for the same period in 2010.

At September 30, 2011, the Company had $9,000 of unrecognized compensation costs related to unvested stock options that have vesting requirements based solely on service conditions. The cost is expected to be amortized over a weighted-average life of 1.6 years, with $1,500 being expensed in 2011, $6,000 being expensed in 2012, and $1,000 being expensed in 2013.

As noted above, certain of the Company’s stock option grants contain terms that provide for a graded vesting schedule whereby portions of the award vest in increments over the requisite service period. The Company has elected to recognize compensation expense for awards with graded vesting schedules on a straight-line basis over the requisite service period for the entire award. Compensation expense is based on the estimated number of stock options and awards that will ultimately vest. Over the past five years, there have only been minimal amounts of forfeitures or expirations, and therefore the Company assumes that all options granted without performance conditions will become vested.

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The following table presents information regarding the activity for the first nine months of 2011 related to all of the Company's stock options outstanding:

	Options Outstanding			
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Contractual Term (years)	Aggregate Intrinsic Value
Balance at December 31, 2010	642,413	$ 18.11		
Granted	–	–		
Exercised	(2,300)	13.30		$ 6,949
Forfeited	–	–		
Expired	–	–		
Outstanding at September 30, 2011	640,113	$ 18.13	3.1	$ 0
Exercisable at September 30, 2011	567,167	$ 18.32	2.6	$ 0

The Company received $30,000 and $171,000 as a result of stock option exercises during the nine months ended September 30, 2011 and 2010, respectively. The Company recorded $0 and $36,000 in tax benefits from the exercise of nonqualified stock options during the nine months ended September 30, 2011 and 2010, respectively.

As discussed above, the Company granted 81,337 performance units to 19 senior officers on June 17, 2008. Each performance unit represents the right to acquire one share of the Company's common stock upon satisfaction of the vesting conditions (discussed above). The fair market value of the Company's common stock on the grant date was $16.53 per share. One-third of this grant was forfeited on December 31, 2008 and another one-third was forfeited on December 31, 2010 because the Company failed to meet the minimum performance goal required for vesting. Also, as discussed above, the Company granted 29,267 and 7,259 long-term restricted shares of common stock to certain senior executives on December 11, 2009 and February 24, 2011, respectively.

The following table presents information regarding the activity during 2011 related to the Company's outstanding performance units and restricted stock:

Nonvested Performance Units		Long-Term Restricted Stock	
Number of Units	Weighted-Average Grant-Date Fair Value	Number of Units	Weighted-Average Grant-Date Fair Value

Nine months ended September 30, 2011						
Nonvested at the beginning of the period	27,113	$	16.53	29,267	$	13.59
Granted during the period	–		–	7,259		14.54
Vested during the period	–		–	–		–
Forfeited or expired during the period	–		–	–		–
Nonvested at end of period	27,113	$	16.53	36,526	$	13.78

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Note 6 – Earnings Per Common Share

Basic earnings per common share were computed by dividing net income (loss) available to common shareholders by the weighted average common shares outstanding. Diluted earnings per common share includes the potentially dilutive effects of the Company's equity plans and the warrant issued to the U.S. Treasury in connection with the Company's participation in the Treasury's Capital Purchase Program – see Note 15 for additional information. The following is a reconciliation of the numerators and denominators used in computing basic and diluted earnings per common share:

	For the Three Months Ended September 30,					
	2011			2010		
($ in thousands except per share amounts)	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS						
Net income (loss) available to common shareholders	$(732)	16,875,918	$(0.04)	$2,821	16,779,554	$0.17
Effect of Dilutive Securities	-	27,113		-	27,581	
Diluted EPS per common share	$(732)	16,903,031	$(0.04)	$2,821	16,807,135	$0.17

	For the Nine Months Ended September 30,					
	2011			2010		
($ in thousands except per share amounts)	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS						
Net income available to common shareholders	$7,286	16,843,716	$0.43	$9,147	16,754,678	$0.55
Effect of Dilutive Securities	-	27,294		-	29,354	
Diluted EPS per common share	$7,286	16,871,010	$0.43	$9,147	16,784,032	$0.54

For both the three and nine month periods ended September 30, 2011, there were 545,347 and 542,916 options, respectively, that were antidilutive because the exercise price exceeded the average market price for the period. For the three and nine months ended September 30, 2010, there were 636,252 and 609,252 options, respectively, that were antidilutive because the exercise price exceeded the average market price for the period. In addition, the warrant for 616,308 shares issued to the U.S. Treasury (see Note 15) was antidilutive for the three and nine months ended September 30, 2011 and 2010. Antidilutive options and warrants have been omitted from the calculation of diluted earnings per common share for the respective periods.

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Note 7 – Securities

The book values and approximate fair values of investment securities at September 30, 2011 and December 31, 2010 are summarized as follows:

	September 30, 2011				December 31, 2010			
($ in thousands)	Amortized Cost	Fair Value	Unrealized Gains	Unrealized (Losses)	Amortized Cost	Fair Value	Unrealized Gains	Unrealized (Losses)
Securities available for sale:								
Government-sponsored enterprise securities	$19,512	19,734	222	–	43,432	43,273	214	(373)
Mortgage-backed securities	111,130	115,037	4,446	(539)	104,660	107,460	3,270	(470)
Corporate bonds	13,191	12,806	240	(625)	15,754	15,330	35	(459)
Equity securities	11,988	12,293	343	(38)	14,858	15,119	301	(40)
Total available for sale	$155,821	159,870	5,251	(1,202)	178,704	181,182	3,820	(1,342)
Securities held to maturity:								
State and local governments	$57,533	61,512	3,980	(1)	54,011	53,305	517	(1,223)
Other	–	–	–	–	7	7	–	–
Total held to maturity	$57,533	61,512	3,980	(1)	54,018	53,312	517	(1,223)

Included in mortgage-backed securities at September 30, 2011 were collateralized mortgage obligations with an amortized cost of $1,779,000 and a fair value of $1,844,000. Included in mortgage-backed securities at December 31, 2010 were collateralized mortgage obligations with an amortized cost of $2,644,000 and a fair value of $2,740,000.

The Company owned Federal Home Loan Bank stock with a cost and fair value of $11,894,000 and $14,759,000 at September 30, 2011 and December 31, 2010, respectively, which is included in equity securities above and serves as part of the collateral for the Company's line of credit with the Federal Home Loan Bank. The investment in this stock is a requirement for membership in the Federal Home Loan Bank system.

The following table presents information regarding securities with unrealized losses at September 30, 2011:

($ in thousands)	Securities in an Unrealized Loss Position for Less than 12 Months		Securities in an Unrealized Loss Position for More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government-sponsored enterprise securities	$ –	–	–	–	–	–
Mortgage-backed securities	39,132	539	–	–	39,132	539
Corporate bonds	5,575	474	2,146	151	7,721	625
Equity securities	11	2	24	36	35	38
State and local governments	284	1	–	–	284	1

Total temporarily impaired securities	$ 45,002	1,016	2,170	187	47,172	1,203

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The following table presents information regarding securities with unrealized losses at December 31, 2010:

	Securities in an Unrealized Loss Position for Less than 12 Months		Securities in an Unrealized Loss Position for More than 12 Months		Total	
(in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government-sponsored enterprise securities	$ 18,607	373	–	–	18,607	373
Mortgage-backed securities						